

In a Post COVID World

India Set to Fortify its
Manufacturing Sector



Introduction

In a post COVID world, when manufacturers around the world are looking to diversify their supply chain & sourcing destinations, India is set to offer a viable alternative. India's large domestic market (a population of over 1.2 billion), attractive demographic dividend, notable progress in Infrastructure growth, surplus power supply, & technological know-how can give a facelift to its manufacturing industries.

After reforming its market in 1991, India emerged as a strong player in the global IT & service industry. However, its manufacturing sector has remained underutilized.

The situation is set to reverse, as India is consolidating its stronghold in the global manufacturing landscape. As the culmination of a host of policy pivots, which includes investment in infrastructure, incentivize FDI investments, & reduction in tax rates, Indian manufacturing is getting a shot in the arm. The country has also made notable progress in terms of overall business environment underscored by the jump in Ease of Doing Business Rankings.

In a post COVID world, when the rules of the game will be in flux, stiff competition from regional peers such as Vietnam and Bangladesh is inevitable. Both Vietnam & Bangladesh have stepped up their manufacturing game in recent years and have developed a stronghold in labour-intensive sectors such as leather, textile, and electronic appliances.

However, India has certain advantages that give an edge over its regional peers. The large domestic market in India will ensure that manufactures do not have to solely rely on exports. Likewise, India has also made commendable progress in terms of the overall business environment.

In a post COVID world, India has every possible ingredient to drive the global growth engine. The central government in coordination with the state government is also taking all the possible steps to attract manufacturers & investors. Special packages are rolled out to help new industries to acquire land & set up their manufacturing base.



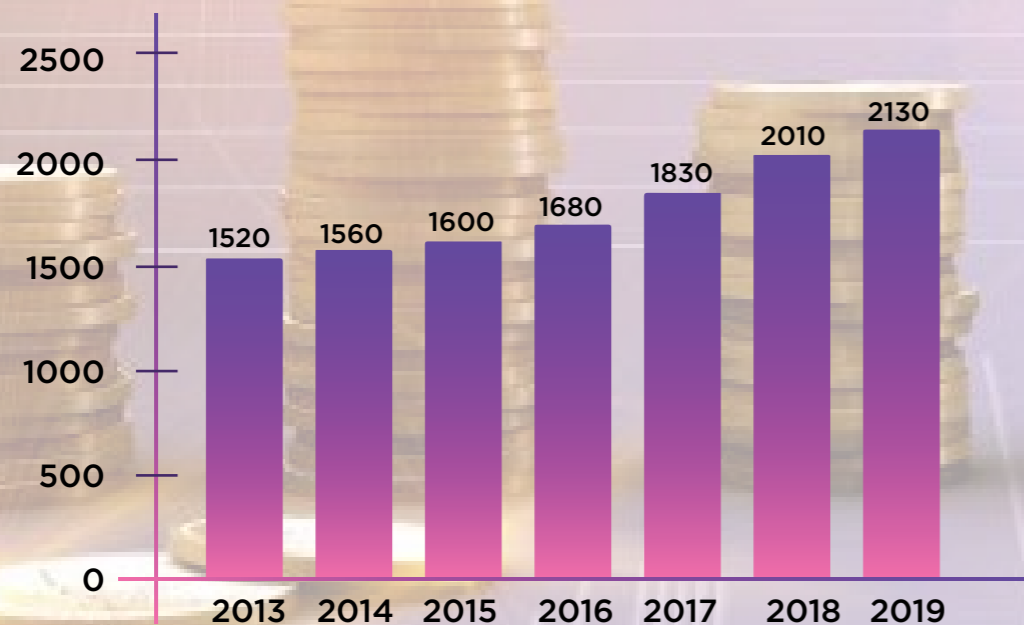
Growth Drivers

DEMOGRAPHICS, ECONOMIC GROWTH & CONSUMPTION

India's population accounted for ~ 17% of the total world's population (Approx. - 1.2 Billion as per UN data) in which youth (15-24) holds 34% of the share.

The Gross National Income (GNI) growth rate is around 6.6% till Jul'20. Currently, the consumption rate determines almost 60% of the GDP

A huge population, growing demography, & incremental growth in the GNI per capita make a favourable market for private sector participation and new businesses to grow and evolve.



GNI per Capita (USD)

Source : UN

TRANSPORTATION & FREIGHT TRAFFIC



Highways

India spends 14% of its GDP on Transport & Logistics sectors. Road network spanned over a total of 5.89 million KM which transports approx. 64.5% of goods and 90% of India's total traffic passengers. At present India is building ~ 30-40 KM of expressway every day.



Railways

India has the world's 3rd largest rail network. In 2019 the freight traffic in Railway amounted to 1208.34 million tonnes.



Air Network

India is the 3rd largest domestic civil aviation market & 9th largest international civil aviation market in the world. In FY'20 (Till Jan'20) the domestic freight traffic stood at 1.14 million tonnes while international freight traffic was at 1.70 million tonnes.



Shipping Industry

(Trading of approx)

India is the 16th largest maritime country in the world with a coastal line of 7517 km. It constituted cross border trading approx. 95% by Volume & 70% by Value.



INDUSTRIES (MANUFACTURING SECTOR)

It is anticipated that India would be the 5th largest manufacturing country in the world by the end of this year. The govt has decided to increase the GDP share of manufacturing to 25% by 2022, also to create 100 million jobs by 2022.

It has launched the flagship program Make in India to transform India into a manufacturing powerhouse through coordinated policies, simplifying & incentivizing FDI investments, & boosting the overall infrastructure.



TECHNOLOGY DRIVEN SYSTEM

In 2015, India launched its Digital India campaign to offer government services digitally, develop digital infrastructure, and build a Knowledge-driven economy.

As per the IMD, World Digital Competitiveness Ranking, India holds 44th rank in the world, rose 4 positions from 48, in 2019. It has improved in terms of knowledge and future readiness to adopt and explore digital technologies.

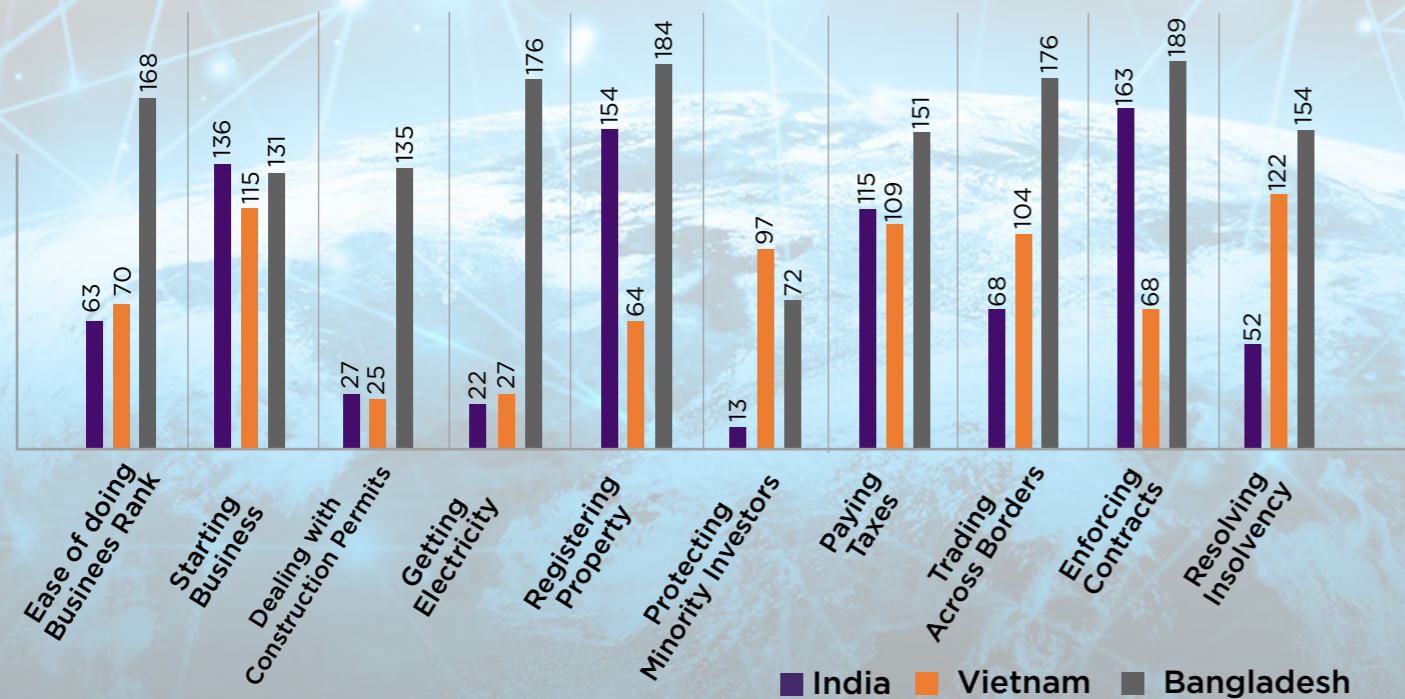
Skill India - Pradhan Mantri Kaushal Vikas Yojana (PMKVY) is the flagship scheme of the ministry of skill development & entrepreneurship (MSDE). The govt. proposed INR 3000 crore under this scheme to train & upgrade a large number of youths to take up relevant skill training for better livelihood.

Global Ranking & Strength



Vietnam scored 67th rank in the Global Competitiveness Index, compiled by World Economic Forum (WEF) previous year, followed by India & Bangladesh that stood at 68th & 105th position. But on sub-parameters ranking such as Market size, Labour market, Financial system and Business Dynamism etc, India had a competitive advantage over its South Asian peers.

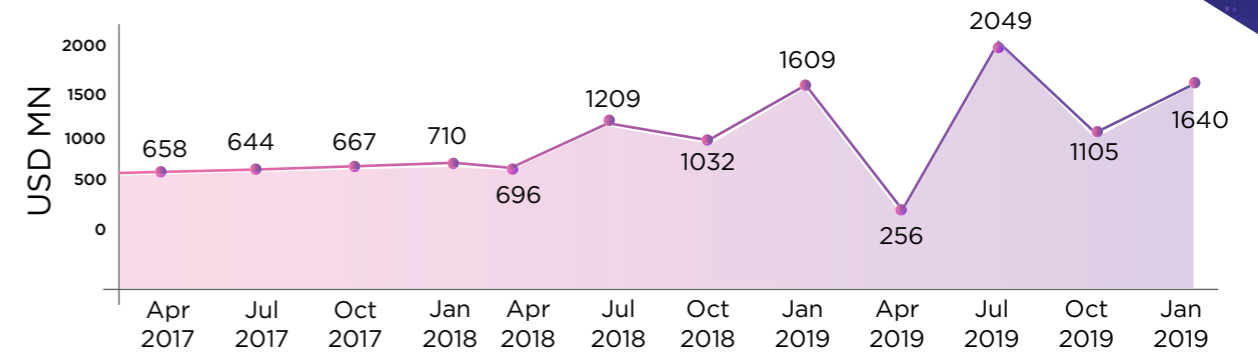
EASE OF DOING BUSINESS



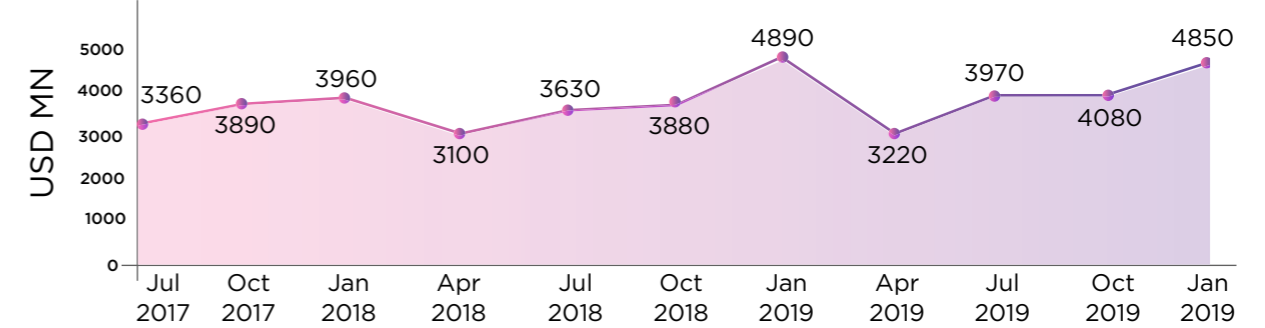
The GOI's impetus towards building a business-friendly environment in India is also reflected in India's spurt in ranking in the Ease of Doing Business. The country jumped 37 positions in the past two years to consolidate its position as a favourable business destination on the world map.

FDI Inflows

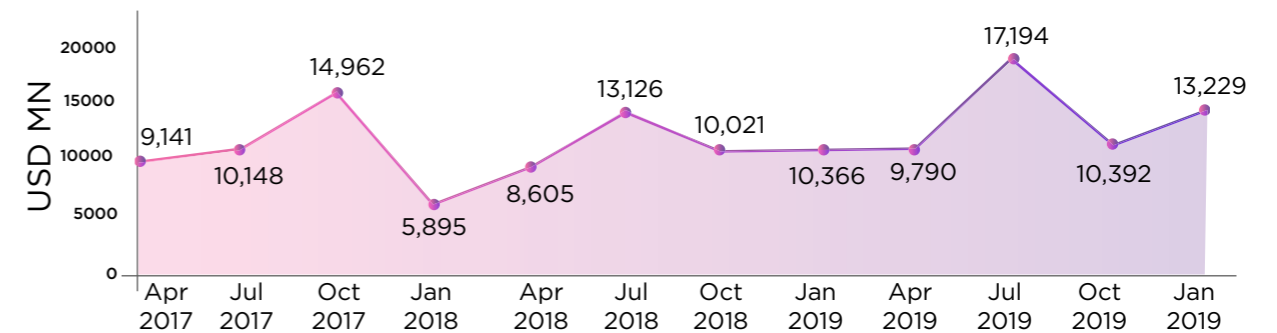
Quarterly Foreign Direct Investment in Bangladesh



Quarterly Foreign Direct Investment in Vietnam



Quarterly Foreign Direct Investment in India



Source: Govt. websites

The volume of FDI inflow in India is significantly higher than other emerging economies such as Bangladesh & Vietnam. India features amongst the top 10 FDI destinations in the world. Besides the service sector & IT, there has been notable growth in FDI inflow in manufacturing industries as well. India's growing middle class & rise in standards of living is transforming the country in a global growth engine.

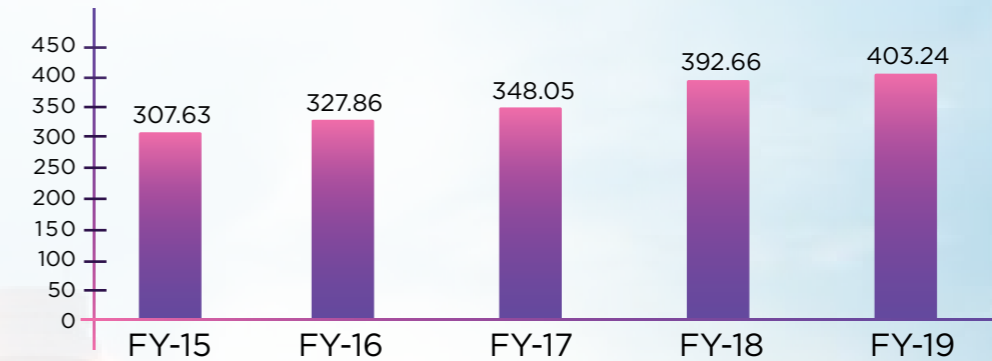
FDI inflows in the Manufacturing Sector

Manufacturing Market Size



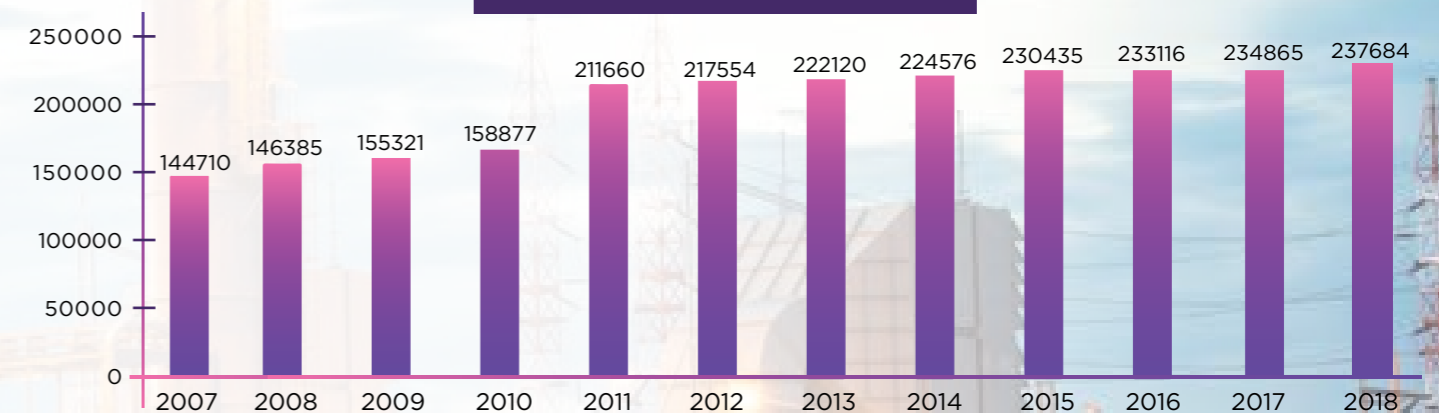
Manufacturing sector reviving in India at a rapid pace. Govt. is allowing 100% FDI in the contract manufacturing to attract overseas investments. Govt. also allowed to sell products manufactured in India through wholesale and retail channels, including through e-commerce, without govt. approval.

Manufacturing Sector GVA at Basic Price at Current Prices (In US\$ Bn)

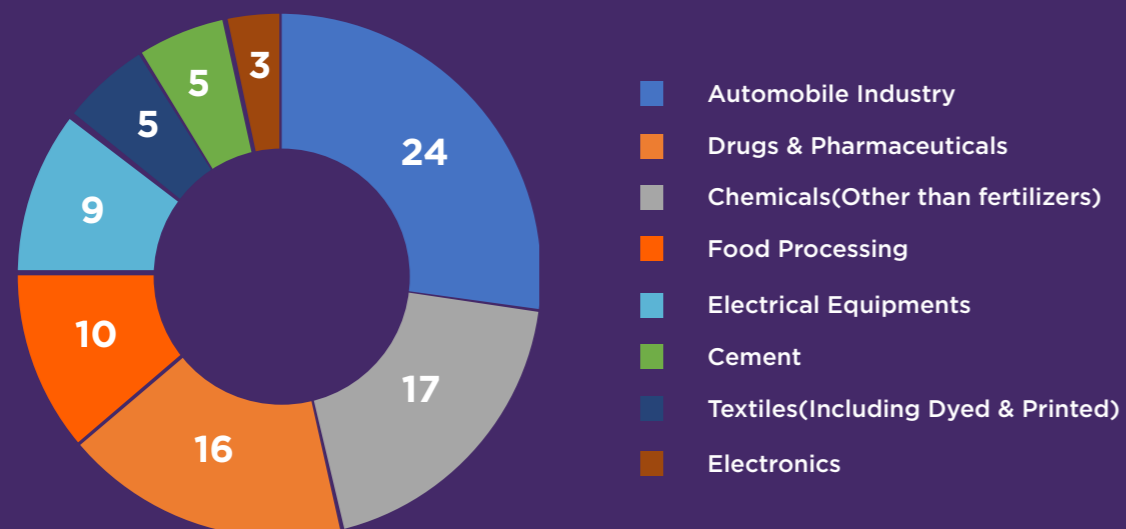


India's manufacturing sector has the potential to touch US\$ 1 trillion by 2025 and to account for 25-30% of the country's GDP, generating approx. 90 million domestic jobs by 2025. The Gross Value Added (GVA) at basic current prices from the manufacturing sector in India grew at a CAGR of 4.29% during FY 12 and FY 19. Business conditions in the Indian manufacturing sector continue to remain positive.

Number of Factories in India



FDI Inflows from April 2000- Dec 2019 (In US\$ Billion)



Conclusion

Indian manufacturing is poised to grow at a remarkable pace. In a post COVID world, when international manufactures will try to diversify their supply chain, India will offer a suitable alternate destination. Favorable policies, simplified FDI participation rules coupled with large domestic markets, and notable progress in Infrsatructure will provide impetus to international companies to grow and expand in India. This will result in an increased number of Greenfield & Brownfield investments cutting across large, medium & small ticket sizes. Consequently, the demand for commercial Real estate will get a forward push. Apart from industrial lands, warehouses, cold storage facilities; office demand will also rise.

Appendix

MAKE IN INDIA

Under the “Make in India” initiative, the GOI aims to increase the share of the manufacturing sector to the GDP to 25% by 2022. The focus of Make in India programme is on 25 sectors. These include Automobiles, Automobiles component, Aviation, Biotechnology, Chemicals, Construction, Electronic System, Food processing, IT & BPM, Leather, Media and Entertainment, Mining, Oil & Gas, Pharmaceuticals, Ports & Shipping, Railways, Renewable Energy, Roads & Highways, Space, Textiles and Garments, Thermal Power, Tourism and Hospitality & Wellness.



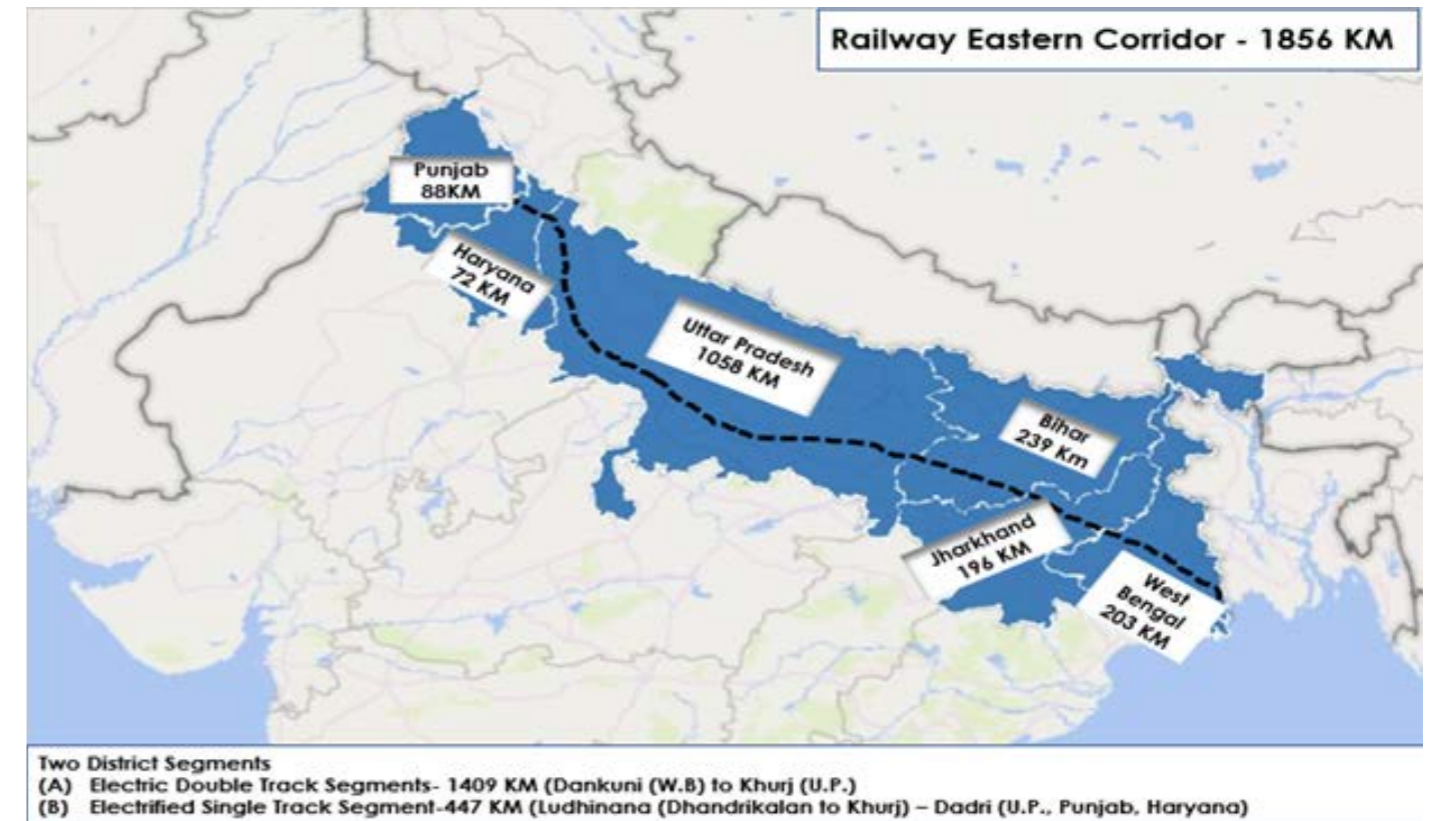
- 2nd Largest Internet Users base with 462 million Internet users.
- India has an immediate investment opportunity of \$1 Tn

Industrialization & Infrastructure

- \$10 Bn fund has been provided by Government under Sagar Mala project to modernize India’s ports, develop Inland waterways to ports, & manage coastline developments
- Doubling of Networks of roads
- 21 new nodal Industrial cities to develop with - Large Land Parcel, Planned Communities, ICT enabled infrastructure, Excellent Connectivity - Road Rail etc.
- 5-Planned Industrial Corridors -
 - (a) Delhi-Mumbai Industrial Corridor (DMIC)
 - (b) Chennai-Bengaluru Industrial Corridor (CBIC)
 - (c) Bengaluru-Mumbai Economic Corridor (BMEC)
 - (d) Vizag-Chennai Industrial Corridor (VCIC)
 - (e) Amritsar Kolkata Industrial Corridor (AKIC)

Policy & Reforms

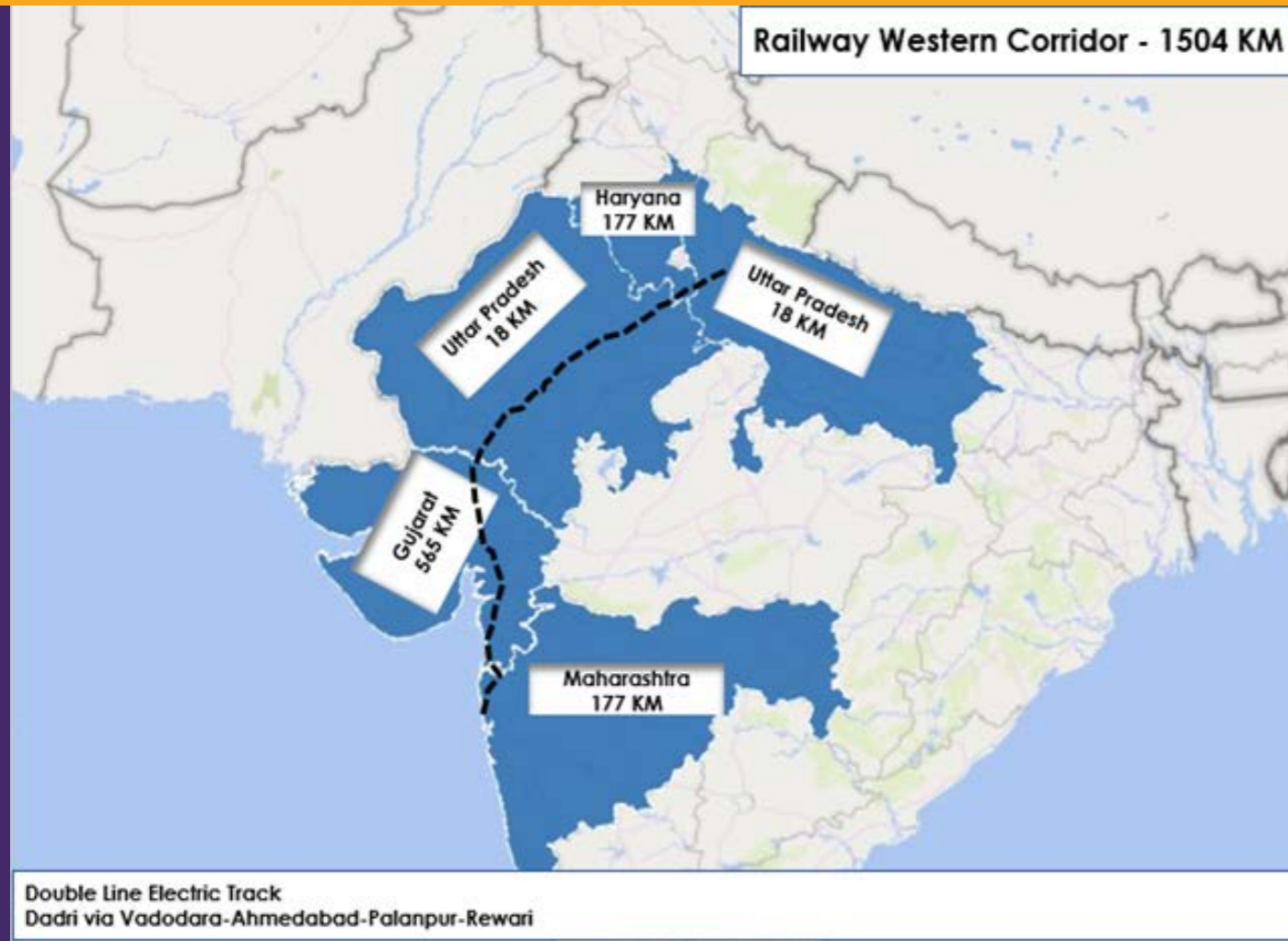
- Government foresee to create US\$ 400 billion electronics manufacturing industry in the country by 2025.
- Increase share of Defence Manufacturing by increasing FDI under the automatic route: from 49% to 74%
- 100% FDI has been allowed in a host of sector
- Coastal Economic Zones are made
- Food Parks have been announced



Projections on Eastern Dedicated Freight Corridor (In Millions Tonnes/Year)

Direction/ Commodity	2021-2022
UP Direction	
Power House Coal	61.96
Public Coal	0.95
Steel	9.74
Others	2.96
Logistics Park	2.40
Down Direction	
Fertilizer	0.42
Cement	1.52
Limestone for the Steel Plants	5.00
Salt	1.03
Others	2.96
Logistics Park	2.40

Western Corridor



Projections on Western Dedicated Freight Corridor (In Millions Tonnes/Year)

Direction/ Commodity	2021-2022
UP Direction	
Food Grains/Fertilizers	1.80
POL	0.50
Cement, Salt, Miscellaneous	0.80
Containers (in Million TEUs)	2.70
Down Direction	
Coal, Cement, Iron & Steel	9.40
Fertilizer, Food Grains, Salt	2.60
POL	1.50
Containers (in Million TEUs)	2.60

Shipping

Indian Coastline
Coastline Area - 7516 KM
North - South - 3214 KM
East - West - 2933 KM
Mainland Coastline - 6100KM
Islands Coastline - 1197 KM
Indian Coastline touches nine states and four union territories
Nine States - Gujarat, Maharashtra, Goa, Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, Odisha and West Bengal



Tier-1 Manufacturing Industry Clusters



Maharashtra

Nashik Region, Pune Region, Konkan Region, Nagpur Region, Aurangabad Region, Amravati Region

The major industries in Maharashtra are – Cotton Textiles, Chemicals, Machinery, Electricals, Transport & Metallurgy



Chennai

Major Industries – Auto & Ancillaries, ESDM, Heavy Engineering, IT & ITeS

Gurgaon

A preferred destination for the IT industry in the north region with 400 IT & ITeS companies.

Major industries – Agriculture, Auto Sector, IT, Pharma and Chemicals, Defence manufacturing, Clean Energy



Hyderabad

Major Industries – Pharma & Life-science, Aerospace & Defence, Hardware & ESDM




Bengaluru

Major Industries – Aerospace, IT & ITeS, Engineering & Machine Tools, Textiles & Apparels, Pharma & Biotech, Automobile



Kolkata

Major Industries – Steel, Heavy Engineering, Mining, Cement, Pharmaceuticals, Food Processing, Agriculture, Textiles & Jutes.



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